

BAYSTATE CORPORATION
6 November 1957

CURRENT WORLD SITUATION

Extraordinary year - Hungary & Suez - cancellation effect

Imagine it either had happened without other.

Highly selective trip around globe starting at the core of our trouble Moscow then elsewhere in Sino-Soviet Bloc and finally key soft spots in free world.

In 3-period glad to deal with countries have to skip

Soviet Internal Situation - Leadership - Principles at stake-not just personal

Struggle for power for powers sake

Many phased struggle starting back 46-48 Zhdanov, Beria, Diem

Mal-Khrushchev - Heavy-light industry 54-55. Molotov tough speech
now clear 1st evidence his lack sympathy new regime.

55 new gamebits in foreign policy

56 climax 20th Party Congress. Non-inevitability of war, many
roads to socialism, & obliteration of Stalin. Mikoyan first
through Khrushchev.

If going to break with Stalin policy had to demolish him & his /
Easy to predict as we did that would pay heavy price in free world
parties and satellites.

Turmoil following upset in Satellites last fall

Momentary domination of technocrats under Pervukhin

Widespread opposition to K's reorganization plan brought theretofore
isolated revuls of K into coalition.

But K fought back and by spring was riding high (Agric. decrees,
fulsome tribute)

MMK knew they were headed for oblivion if didn't act

Feared K would act at Len celebrations end of June

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Picked time when thought had sure majority Presidium (Top 11 + 6)
18 June K alone except for Z & Furt - Bulganin got out of the line of
fire by getting elected non voting Chairman (now a lame duck)

MM moved oust K as 1st Sec. - demote to Agric. Minister - Mol
to be 1st Sec. - complete return to toughness at home and
abroad "Tightening all the screws"

K got word out through Fustswa et al and CC members started
streaming in to M. Then K challenged Presidium
and won hands down in CC.

Mal - only dangerous rival - not cobeliever of Mol & K

Importance of CC as court of last resort. Packed by K but nonetheless
representative in a sense .

133 + 122 + 60 control com. - describe of tense

Army role important but not independently decisive hates Secret Police
and thus return to Stalin.

Policy more flexible e.g. Satisfying Jugs on aid & pitching in to help
India with large loans at home & abroad. Clearly less ominous
than if MMK team had won. But no leading from weakness.

K & 20th Party Congress are both confident that the key to the cold
war and ultimate world domination is race of economic systems
and that they will win.

No longer bank on one great capitalistic depression but rather on
comparison of growth rates.

Their case is not one to scoff at --

Industrially have moved from 1/8 to 2/5 of our system in 10 years.

GNP will be about 1/2 ours 5 years from now.

Growth rates 3x - (10-3 1/2) (6 1/2 - 2)

If continued (and more slippage in ours than theirs) their GNP
and ours will be about equal 20 years hence.

Already out producing us 2-1 in machine tools - vital multiplier and energy supply ratio 1945 19% 37% 1955 to 46% in 60.

Key is investment in producers goods of twice our rate

At same time giving consumers enough more each year in fact and in promise to keep any mass discontent from causing trouble.

Last year blest with bumper crop while this year had droughts will cut it back at least to 55 level. This may hurt K politically.

Stress on education

initiative by local resp just too big for centralized management of detail - blue eagle analogy districts size of Conn. or Nebraska.

Only time will tell whether quality of top management will suffer or whether in fact the Sewell Avery's and hidebound Bureaucrates are ones getting ax.

Believe they have cut back conventional arms production and substantially reduced manpower (labor force figures but QCSI won't admit it yet) but driving ahead on AE and GM.

So long as hold this confidence in overtaking us will play with matches in Near East, etc. but not with big fires such as Korea.

But could not back up an inch e.g. Hungary, Germany

Key to question of Soviet collectives endurance will be found not so much in foreign affairs in or outside the bloc but rather in their success or failure in their major announced goal: To develop Russia into the World's No. 1 industrial power.

Soviet leaders think and speak in terms of epochs and generally pride themselves on having perspective. E.g. Kaganovich's prediction that the world would be coming ^{to} by the end of the 20th century. Kaganovich's statement to Senator Margaret Smith: "Not you or your daughter, but your granddaughter will be a Communist." Particularly they are looking at, and we should likewise, the "Post-war generation" 1945-1975, broken up into 6 five year plan periods. We stand toward the middle of that period and have certain rather clear readings on how they have fared and are likely to fare from here on out.

[Avoid talking in terms of GNP because so misleading in terms of power--will talk rather of industrial production (physical commodities produced in factories and shops) excludes agriculture, services, transportation and ^{construction}). Will also illustrate by specific industries.]

In '46 the Russians were badly beat up, 12% of our industrial output.

Next five years saw prodigious growth - but ready, and to us reassuring, explanations were at hand:

- a) Marginal efficiency of Cap and Repair
- b) Transfers from farm labor and army
- c) Plus loot from Germany, Satellites, Manchuria

Relative gains were spectacular - figured they'd soon taper off.

But in following 5 years 51-55 the special factors were largely gone yet grew industrially by 70% ^{Compounded} of US 23% (Compound rate

12% vs 4%) (our own figures not Soviet claims). Fulfilled

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Why? Basically because of forced draft gross investment

26% USSR	$\frac{1}{2}$ to Industry
<u>15% US</u>	$\frac{1}{4}$ to Industry

Industrially still only 26% of ours; and our NATO countries' absolute margin widened.

So why get excited?

C Consider a few specific comparisons for past year 55

Consumer goods pitiful (it is here that their vaunted plans are chronically underfulfilled).

Automobiles a little over 1% of ours

Washing Machines	2%
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Radios and TVs	20%
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Shoes, textiles, etc. more comparable in quantity but
frightfully shoddy.

But in Heavy Industry -- Capital goods -- picture far different.

(Here plans are regularly overfulfilled and quality is generally up to Western standards)

Steel 40% of ours and closing the gap in absolute terms.

Freight cars $\frac{\text{equal}}{=}$ to us

Machine tools, the fundamental "multiplier," ~~405,000 to~~

~~RE 4-11-9 4551~~ 120,000 to 64,000 ('56)

GNP Military slice 14% in terms of rubles cf our 10%

But most efficient sector hence in terms of end use is 21%
in other words if you take our values for what they buy with
this defense funds you get 38 billion out of 165 billion or
equal to us.

NB thus forced draft growth and heavy military spending has been accomplished while maintaining basically deflationary trend in prices--some fact?

Soviet reorganization of economic management Dec '56-May '57

Most important organizational shakeup in 30 years of industrialization

Planning increasingly complicated by growth of economy

200,000 State Enterprises 100,000 construction sites

Greater Moscow's independent output now > whole Russia's 25 years ago

Stalin's death a) eliminated clear cut arbiter of all conflicts
b) set loose stray social forces competing for priorities - housing, education, consumers goods, etc.

Increasing scarcity of a) labor

b) low cost natural resources

Will focus decision making in fields of industry and construction in economic regions (100) on pragmatic basis - prevents cross hauling ludicrous "vertical integration"

Cut back some goals in favor of investment in resources, automation and per worker efficiency. Local "initiative" stressed throughout.

Basic units = State of Com

Incentives stressed: Improvement in ghastly housing situation (13x13 for family of 4), more consumer durables, improvement in dull diet, in all enough to ensure feeling of betterment.

Impressive but not currently threatening.

Within this year achieving Nuclear "Enoughness"

Delivery - capabilities

Heavy Bombers reval ours in numbers & performance

Medium jets 1/3d but no bases near

Hence, punch is one shot - one-way - but we can't discount their willingness to execute if forced

But theirs is not a war or pre war economy

14% GNP to defense of our 11%

Gives them roughly same hardware

Really cutting back numbers of men in arms

Need for manpower in production not doing Squats right

New have same % pop under arms as we

Next spring may well be down to 2.5 - disarm negots.

Military Policy

Chances of their initiating all-out global war negligible

Doing too well in peaceful camp

No desire to risk all they've built up in nuclear haulocaust - Defenses still weak

Moreover, hardly more likelihood of their starting Korea or even smaller bush fire.

Since '53 have liquidated Korea & IC

Recently Pathet Lao & IC have shown they want to put quieters on even possibility of bush fires.

As Bulganin said in private conversation - system with 900 million would succeed or fail and addition of another 100 million no gain.

We have tended to think too much in terms of the Acreage of Power. They (Russia & China) convinced intensive increments to power from development own lands are what counts rather than extensions area-wise.

(Matsu & Quemoy exceptions because regarded as purely internal police affair by Chicom) as we would the suppression of a Communist regime on Nantucket & Martha's Vineyard.

While ready to pick up by revolution or subversion any tottering free world country, promoting disintegration and revolution not uppermost in their minds, CP of India has orders to help make India Economic program work not obstruct it.

They are concentrating on a classical tough power drive comparable to the Real politik of Imperial Germany or the commercial expansion of Victorian Britain or the U.S.

First make themselves No 1. industrial power

Second set contagious example for the underdeveloped nations that theirs is the short cut to plenty

Third demonstrate even to firmly independent, even capitalistic countries that their foreign trade policies more advantageous than those of U.S. (Long-term commitments - no strings, buying agriculture surplus even when don't need. Low interest soft loans.)

This long range policy developed in the years after Stalin's death and promulgated last spring at 20th Party Congress.

Based on unshakable confidence that they have the solution to the complex technological, sociological problems of 2d half 20th Century.

That their system of direction downward by a self perpetuating elite carefully replenished by a massive educational program can outstrip our system of control upward by free men speaking through the ballot box and the market place.

That is nature of the challenge - more subtle and more difficult to cope with than overt aggression.

It will take all the genius energy and self denial a great free people possess to counter and turn back this challenge. The measures we should take

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are not my business - but to recognize the nature and magnitude of

the threat is the duty of everyone who occupies a position of
position of responsibility in our society.

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Soviet gold position and policy

Best estimates 4-5 billion reserve

American production 200 + million

Sales heavy in 54 150 million +
negligible in 55

heavy in 56 100 million +

54 Explanation Malenkov's quick aid to Consumer
lots of Danish bacon, Uruguayan mutton, etc.

55 Very favorable Sterling balance

56 Sterling deficit from abnormal purchases of raw materials and
semi-processed (cu wire) products from Sterling area

ND less than one years production

Apparently not the misers and worshippers of gold that were in Stalin's
day. Appear to have concluded basic reserve is adequate against financial or
agricultural reverses or international crises and that gold like, oil or

manganese, should be used as desirable to obtain needed imports.

From time to time chimerical fears of Soviet "dumping" huge amounts of gold to discombobulate world markets crop up. Should be discounted both as to likelihood and effect. Ultimate sufferer would be USSR.

Finally lets look at the really new Phenom of last two years - Soviet entry into foreign lending field (soft loans at low interest) to underdeveloped nations - Hence, particularly in making comparisons with the US necessary to distinguish 3 arenas

Hockey
analogy -
Blue lines

Intra Bloc

US Backyard

Soviet Backyard

Woman's Land

and 3 permutations
of competing
activities

US Equiv.

5 billion +

25 billion

+ 1 billion this past fall in credits,
moratoria, etc. to restless satellites

Percentage of GNP roughly comparable

N. Korea

S. Korea

3 yr. ec.
only
per cap.

\$400,000,000

\$700,000,000

\$50

\$30

NVN

SVN

Since
truce '54

\$425

\$100

4 times as much per capita

Of course these war-devastated areas but
new bldg. & cap pretty efficient.

Neutralist Areas

USSR

US

India

\$280

\$130

Indonesia

\$112

\$ 36

Cambodia

\$ 22

\$ 23

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Neutralist Areas (Cont'd.)

	<u>USSR</u>	<u>US</u>
Afghanistan	\$157	\$25
Egypt	\$280	—
Syria	\$100	—
	—	—
	\$950	\$215
(About 2 billion aggregate credits 470 '55)		(IDAB US '57)
(1.4 '56)		(Ec. aid 250)
(6 offers outstanding)		(Tech aid 140)
		(390)

If added Yugoslavia would be even more lopsided.

*
 Total credits 1 B/ + countries

Arms 360 - Easy - alt is scrap metal (incredible US defense costing policies) 5 billion more available

* ave or \$300 per year net export of cap. + 600 million offers outstanding

Plays into each other's backyards

<u>USSR</u>	<u>OFFERS</u>	<u>US</u>
Iceland	\$ 11	Poland \$75 million only
Turkey	\$240	
Iran	\$ 3	and this is dubious in view of the opposition of the Neanderthals on Capital Hill.
Pakistan		
Latin America	\$ 55 million	
	\$300 +	

The growing efficiency of Soviet Capital goods production, rising costs of its prime raw materials, plus Soviet ability to absorb imports of surplus foods, etc. means that Soviets can operate these programs with considerable economic benefit or at least without serious net economic disadvantage.

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Despite troubles in Satellite areas, etc. - credit programs less than

.2% GNP per year will continue and expand.

Will be tough competition (low interest, local currency or products in repayment) - shading beds, e.g. Syrian Oil Refinery. Skill fully tailoring offers to aspirations of each country.

Negotiating and executing expeditiously - "no strings".

Long term commitments, tactful handling of native sensibilities stressing mutuality of benefit Bloc specialists have reputation for achieving politics and prop for prof competence discipline and unobtrusive living. But over 95% of undeveloped areas trade is with free world. Impact thus is greater by its quality and selectivity than through aggregate size.

We will have to find a means to counter it to flex the solid banking nationale of ExIm and World Bank. That's what Sec. Dulles is now (8 Apr) requesting of the Congress.

Obviously sound finance and private capital desirable but in their absence US Government must stay in the poker games in Afghan, in Mid & Far East or will see there markets monopolized by Soviets and almost certainly witness the inevitable political monopoly of Communism follow.

Availability to these underdeveloped, uncommitted countries of Bloc economic assistance has in some measure reduced the influence US can exercise through foreign aid.

Bloc now provides additional or alternative source of large-scale cap funds and technical assistance.

Thus welcome to these states who dearly want to balance their relations with the two top world powers. Accepting aid from both sides has high symbolic importance as an assistance of their independence.

Thus this new development raises price of US exercising influence on uncommitted states through foreign aid and makes such aid all the more necessary and expensive condition of maintaining Western positions with allied states.

Zhukov firing has the experts in turmoil

All returns not in yet and very dangerous to get out on limb
but, in my opinion

This not crucial struggle between Army and Party
not Khrushchev heading off bid for all out power by Zhukov
not private power play by Khrushchev to make himself more
nearly an absolute dictator.

Rather it is slapping down of military man who got too big for his breech
breeches and defied "civilian" i.e. CP authority. Real counterpart
is firing of MacArthur in '51.

Just as Truman was supported by Bradley & Collins so Khrushchev
had support of Konev --

NB likely monkey of excess brutality in Hungary will be put on Z's
neck

Don't get misled by analyses of 4 Power bases: Party, Army,
Technocrats & Police

There is only one and that is Party

He who can administer the Secretariat of the CPSU and can persuade
CC rules Russia and for the time being the boy they're listening
to is Khrushchev.

Also he is not an alcoholic and is not emotional and impulsive --
he knows when and how to put on such acts which humanize him to
the Russian people.

In 46 Stalin virtually amid ruins pronounced that by 1960 USSR would 60 MMT Oil and steel and 500 million tons coal considered piemsky but 100 MMT Oil, 52 steel and 450 million tons coal and sure to make production. Today Khrushchev said in 15 years 350-400 MMT Oil, 100-120 steel.

Taking a mid-range forward look - say to the end of postwar generation 1975:

If US growth maintains rate of 1950s since Korean bulge (and its clear that is assumption is more favorable than the facts for '57) real GNP growth, ~~stopping~~ stamping out inflation, will be about 2% per annum.

If USSR CONTINUES TO DIRECT ITS EFFORTS TO CAPITAL formation and proceeds to do not quite as well as it has done in 1950s (labor shortage from low birth war years loom ahead) their real growth rate will be 7%.

This audience does not need instruction in how much faster 7% compounds their 2% - and taking our present say 430 billion @2% and their 170 @7% (check my figuring tomorrow) you'll find the lines crossing in 19 years - 1976.

There are lots of ifs in this but likelihood is just as great error is on conservative as on alarmist side. E.g. 1 good depression could make a horse race of this in a very short time.

Military Posture -

Guided missile lead over us at least a year perhaps more.

Single minded concentration since '48

No diversion of effort to slow airbreathing missile.

Planes good but generally not as good as ours and fewer LR bombers.

Stockpile of weapons and efficiency very impressive.

At minimum adds up to their achieving what they clearly believe to be -
and what in fact may well be the deterrent to our "Deterrent by massive
retaliation." Puts them in a position to say "you - who else".

Maybe even worse in the course of next 2-3 years while we are
struggling to make up for time lost back in 1949-53 and during cutbacks.

But Military Policy despite Syrian crisis ---

In competition for the underdeveloped, new areas have recently emerged.

But some say piddling compared to our give away props.

But in turn lets look carefully

Like hockey rink - 3 zones by blue lines

In our defensive

Bloc and this year \$1.2 billion

3 yrs N. Korea 400,000,000 = 50/cap US to SK 700 = 30/cap

Since truce NVN 425 US to SVN 100

In Mid range

India, Syria, Afghan, Egypt are extending credits at 3 to 4 times our
rate and no strings, low interest, repayment in hard to market commods.

In Fwd Zone

US only this last year began to play - 90 m to Poland

Sov in Iceland, Turkey, Latin America, Pakistan raring to go tho
as yet more offers than firm deliveries.

We can't abandon this field, we can't go to war with them for building steel mills and refineries.

Don't be kidded by idea there just covers for subversion. Sov techs steer clear of politics, live simply and have enviable rep for prof competence.

And since exporting their low cost machinery for raw materials in long run economic drain is on Soviets is piddling compared to GNP.